NZ EMISSIONS TRADING SCHEME

Seventh Annual Workshop on Greenhouse Gas Emissions Trading

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October 2007

New Zealand Government

sustainability

Overview of presentation

- Context for developing the NZ ETS
- Why emissions trading?
- Impacts
- Key features

Climate change – a global solution

- NZ must do its bit to reduce emissions – but reducing NZ's emissions will not fix climate change
- NZ is reliant on effective international action
- We must encourage effective international action
- We cannot ask others to take action unless we do so
- Therefore the best means of meeting current and future international obligations is the issue

Evolution of NZ climate change policy

2002	NZ ratified the KP; CP1 target of 1990 emissions levels Climate change policy package: carbon tax (energy, industrial processes) Negotiated Greenhouse Agreements for trade-exposed industry no broad devolution of credits or liabilities to the forestry sector up to a cap of 21 Mt CO_2 joint research initiative with agriculture sector through 2012
2005	Climate change policy review Decision not to proceed with the carbon tax and NGAs Climate change work programmes initiated
Dec 2006 – March 2007	Broad consultation on 5 climate change discussion documents
May 2007	Government announced work by an Emissions Trading Group to develop an NZ ETS
Sept 2007	Government launched its framework document on the NZ ETS and began public engagement prior to final decisions and legislation

Why emissions trading?

- Least cost
- Flexible
- Effective
- Businesses' most preferred option

What will emissions trading achieve?

SHORT TERM

- Lower emissions relative to business as usual

LONG TERM

- Expected to achieve significant emissions reductions

What will it cost?

- The cost to the NZ economy is primarily set by the level of international obligation
- NZ is already committed to the cost of Kyoto obligations for CP1
- Macroeconomic modelling shows that the impacts of Kyoto obligations are negligible
- Generous assistance to businesses and low-income households will help address distributional impacts of the NZ ETS within sectors

NZ climate change policy portfolio

- The ETS will be NZ's core price-based measure for addressing climate change
- NZ's policy response extends beyond the ETS
  - New Zealand Energy Strategy and New Zealand Energy Efficiency and Conservation Strategy
  - Sustainable Land Management Plan of Action
  - Regulations and incentives
  - Research and development
  - Adaptation

Towards a Carbon Neutral New Zealand

- NZ to be one of first countries to widely deploy electric vehicles
- NZ to lead agricultural research

Achieving these sector targets will move New Zealand strongly in the direction of carbon neutrality.

2020

250,000 ha new forest

2025

90% renewable electricity

Carbon neutral electrical energy

2030

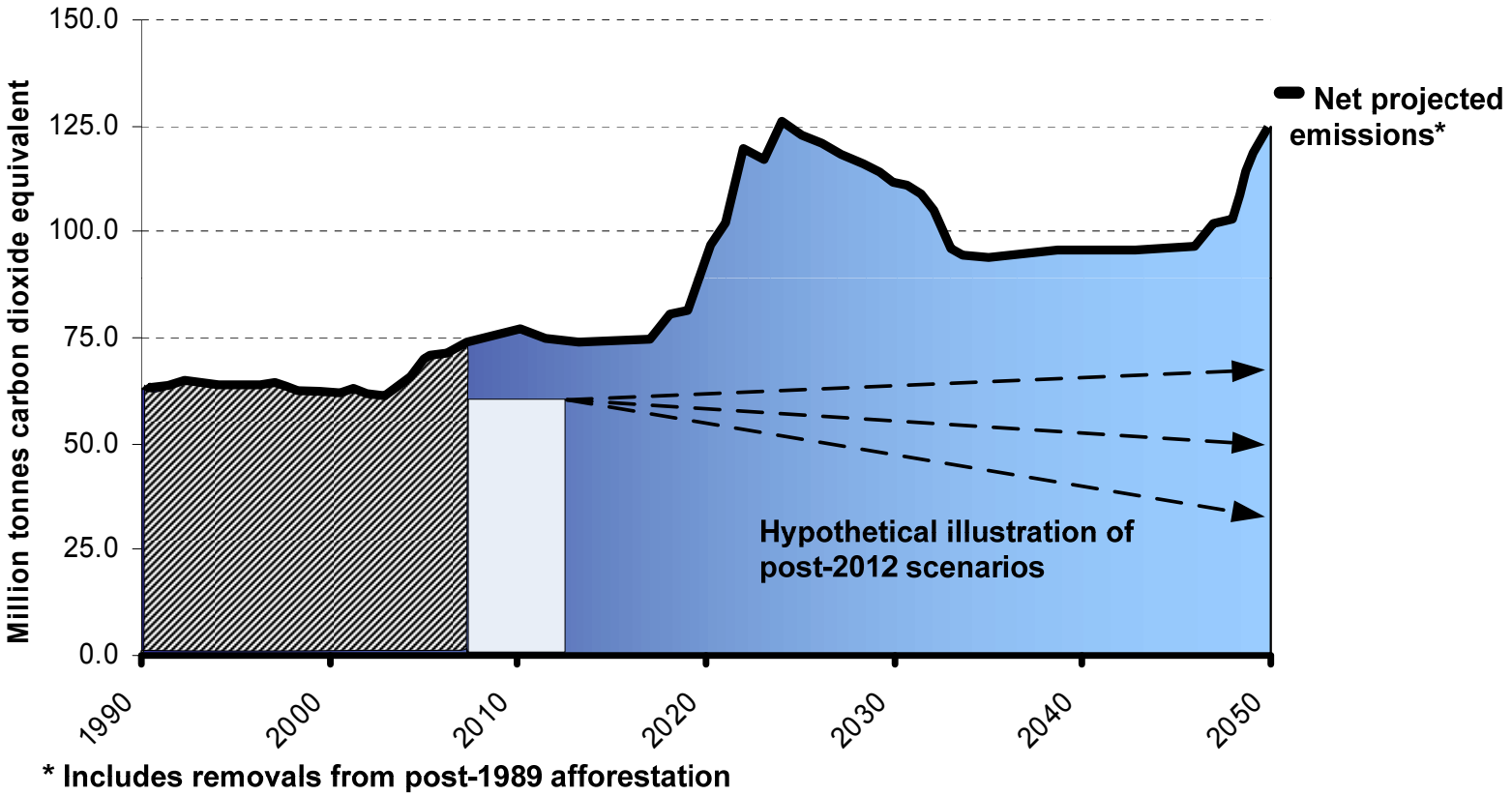
Carbon neutral stationary energy

2040

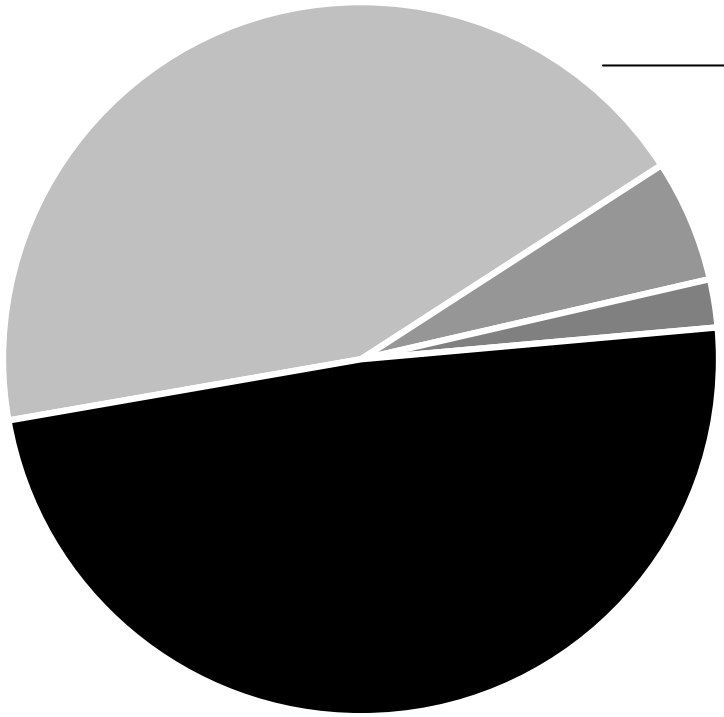
Per capita transport emissions halved

Carbon neutral transport and energy

Projected greenhouse gas emissions in the context of international agreements



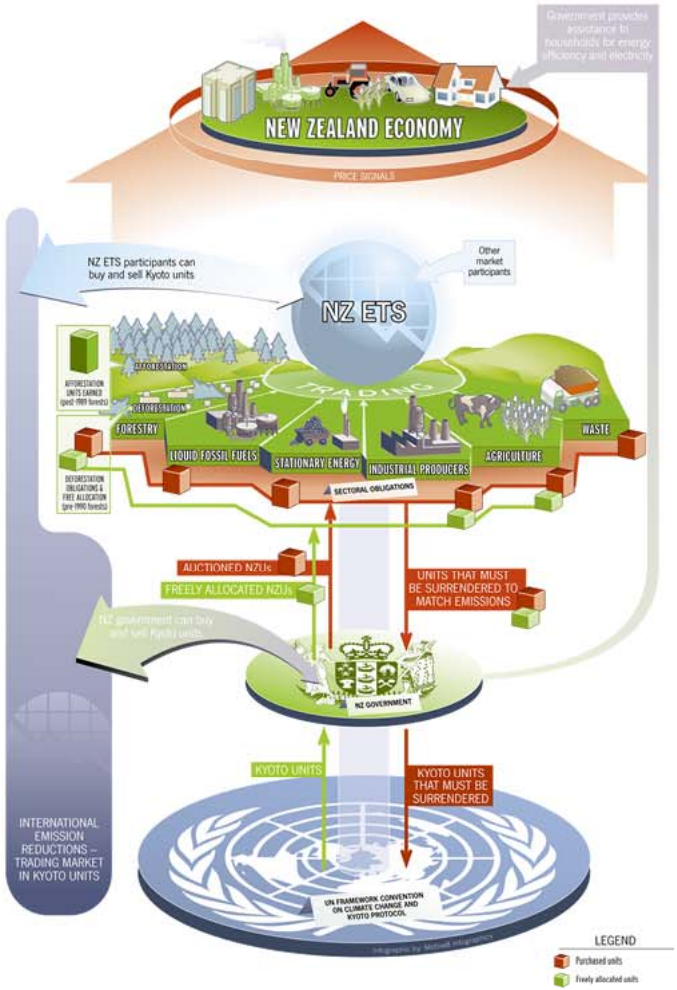
Current greenhouse gas emissions by sector



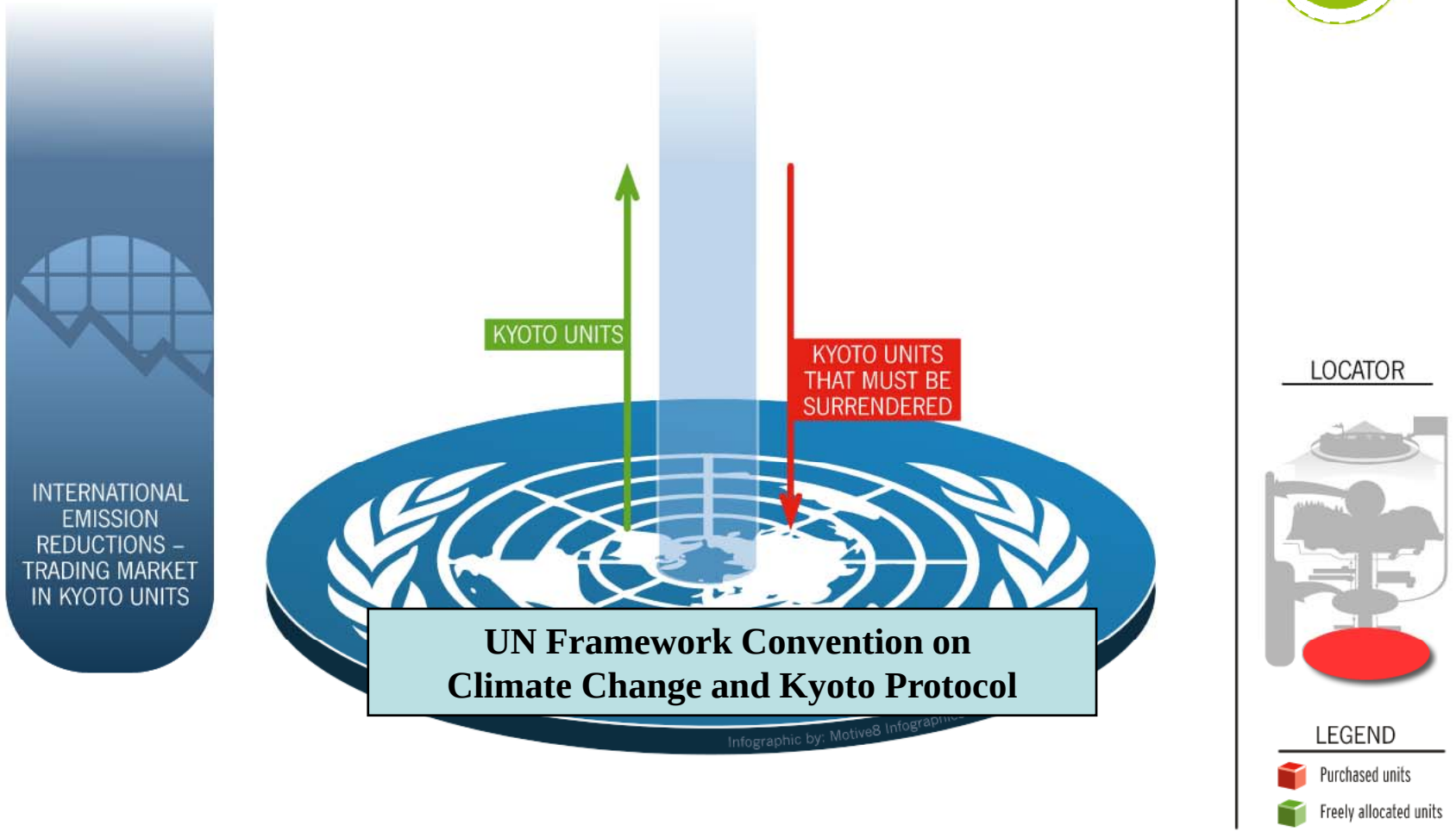
NZ ETS design - all gases, all sectors

- New Zealand's emissions trading scheme will cover all six greenhouse gases in the Kyoto Protocol
- It will cover all the significant sources of gases in the economy
- It is a world-leading design

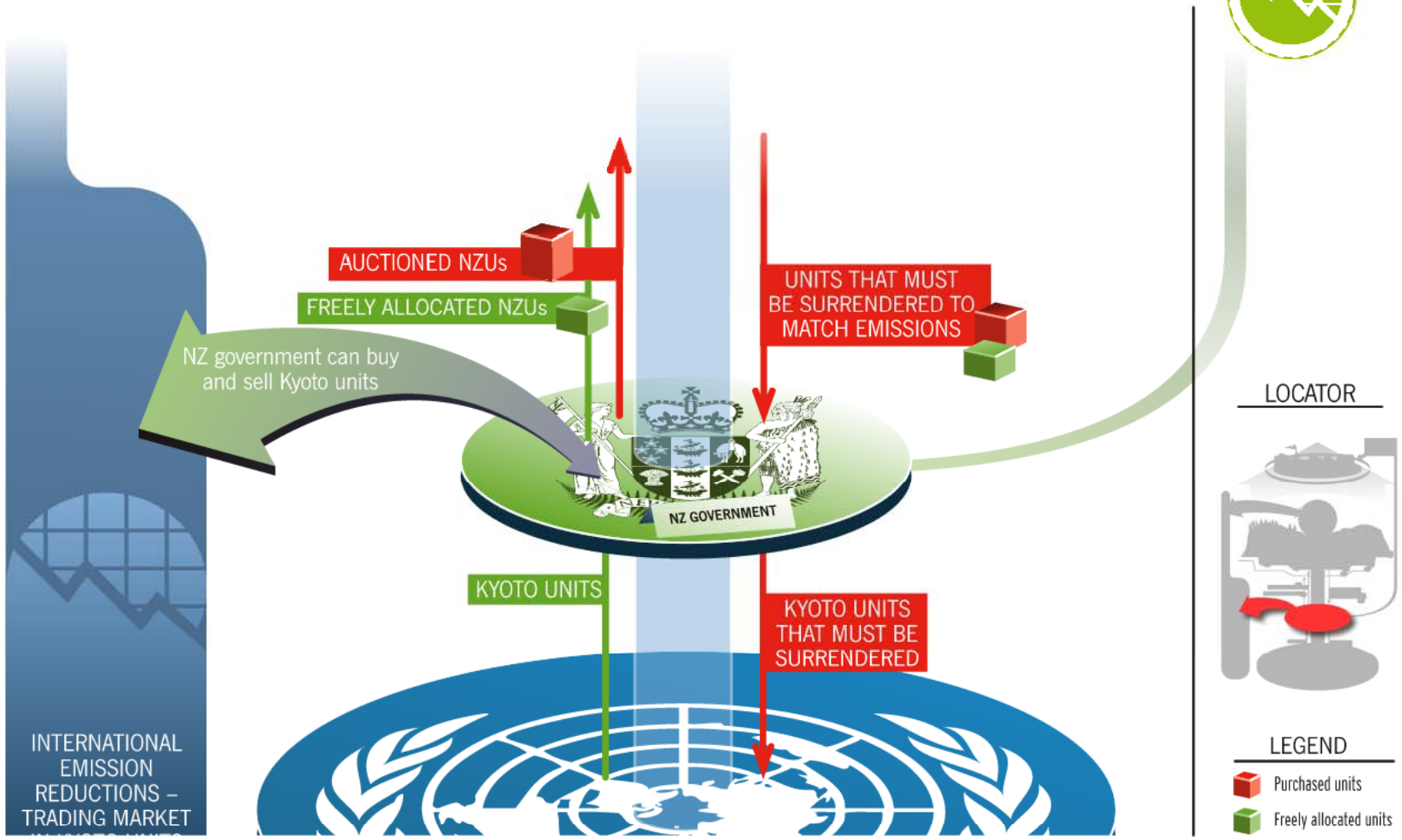
New Zealand Emissions Trading Scheme



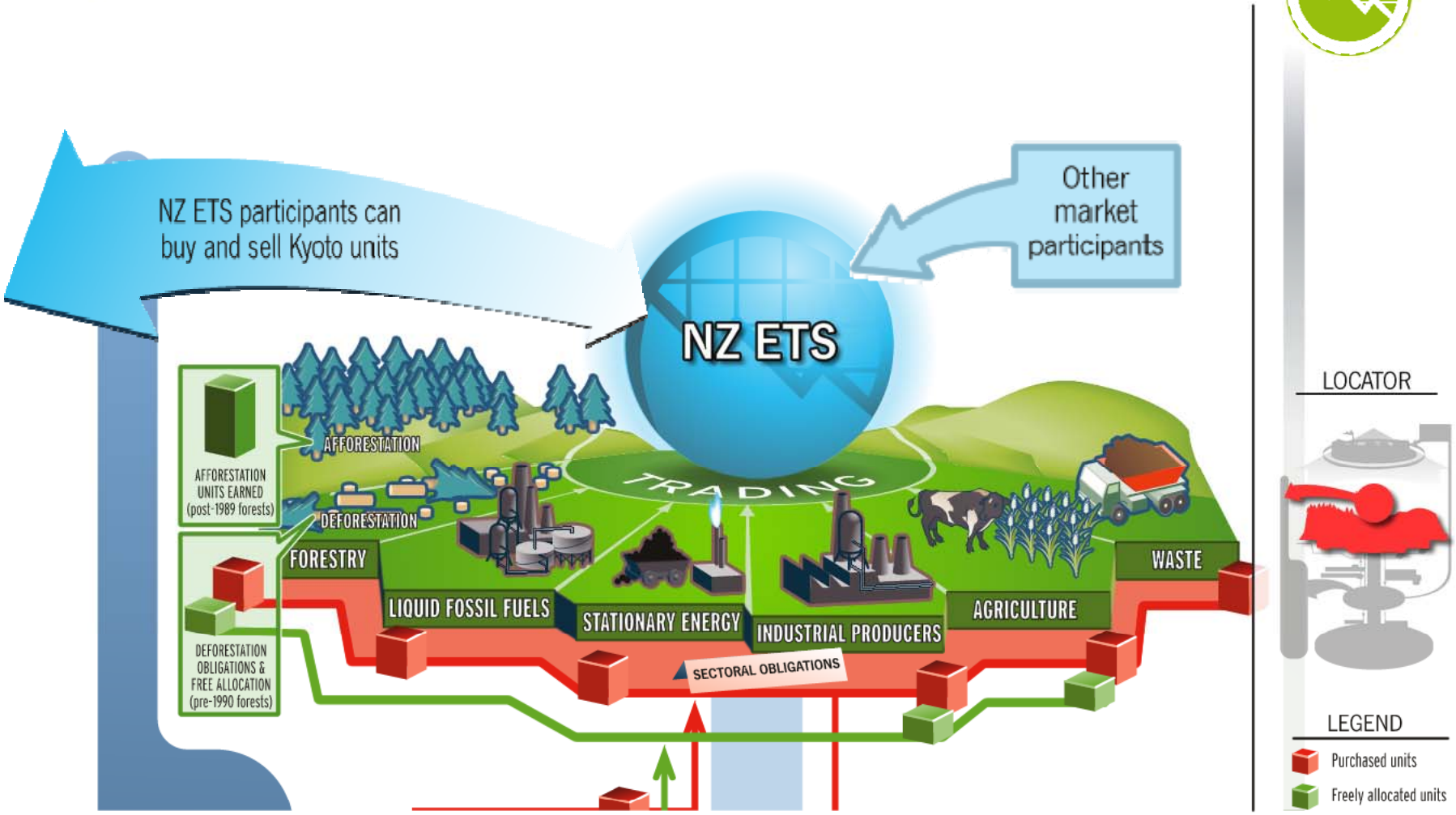
New Zealand Emissions Trading Scheme



New Zealand Emissions Trading Scheme



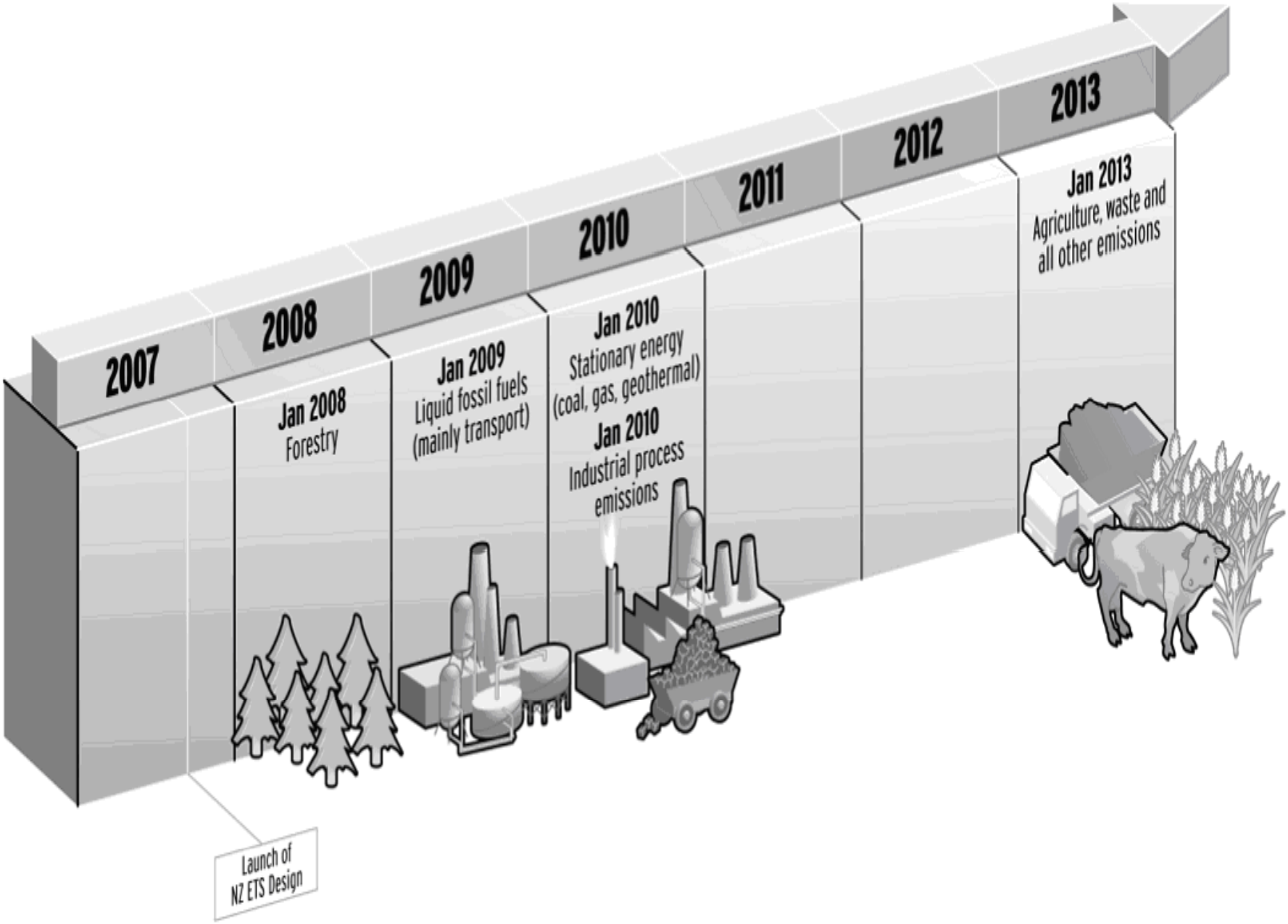
New Zealand Emissions Trading Scheme



Towards a carbon neutral New Zealand

LEGEND

- Purchased units
- Freely allocated units

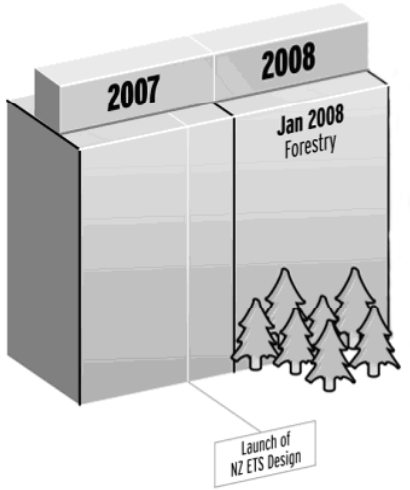

2007
2008
2009
2010
2011
2012
2013
Jan 2008
Forestry
Jan 2009
Liquid fossil fuels
(mainly transport)
Jan 2010
Stationary energy
(coal, gas, geothermal)
Jan 2010
Industrial process
emissions
Jan 2013
Agriculture, waste and
all other emissions
Launch of
NZ ETS Design

Forestry – January 2008

- Post-1989 forests – choice of entering scheme, will receive credits as forests grow, surrender at harvest

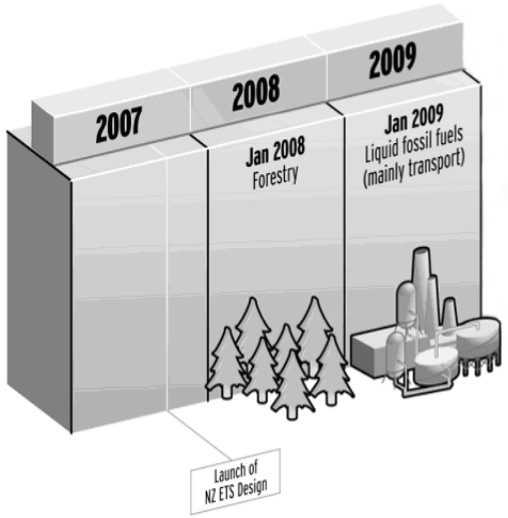
- Pre-1990 forests – will receive free allocation with obligations if land is deforested

- Small forests exempt



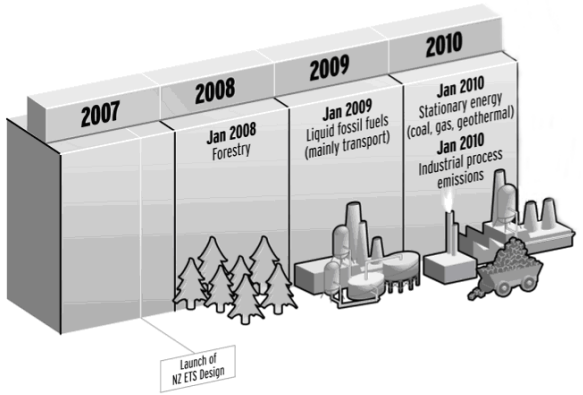
Transport – January 2009

- Will cover all liquid fossil fuels, except international aviation and marine
- Obligations will lie with large fuel suppliers
- No free allocation



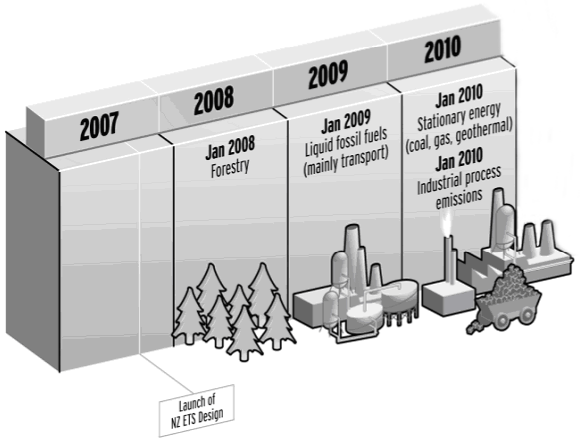
Stationary energy – January 2010

- Two-thirds of our electricity is generated from renewable sources
- Generators will pass on costs and, therefore, will not receive free allocation
- Generous free allocation to major industries for price increases in electricity, gas and coal, but who cannot pass on their emissions costs



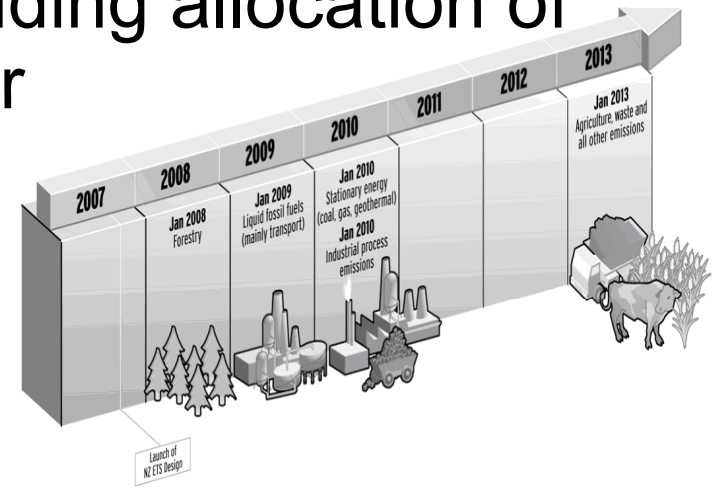
Industry – January 2010

- Will cover industrial processes such as steel, aluminium, cement, lime, fertiliser
- Government to engage on points of obligation and on the most effective way of allocating assistance within sectors
- Assist industry with increased costs by either reducing their emission unit obligations or free allocation of units



Agriculture – January 2013

- Government to engage on points of obligation – initial preference is to make processing companies, not individual farmers, responsible
- Free allocation to sector – on same basis as that of industry
- Engagement on specifics of agriculture's inclusion in the ETS – including allocation of assistance within the sector



Assistance for business

- Gradual transition - all sectors face price at margin by 2013
- Generous free allocation for businesses that cannot pass on their emission costs
- Both industry and agriculture sectors receive up to 90% of 2005 emission levels
- Forestry sector receives historical rates of deforestation

Assistance for business

- Two major reasons for providing assistance: equity and avoiding long-term regrets
- Balance between competing factors such as equity, efficiency, administrative ease and overall acceptability
- Range of questions – complex area of design:
  - Assistance to whom?
  - How much?
  - For how long?
  - How to provide and through what mechanism?
  - Interaction with related policies such as treatment of firm entry and exit?

Assistance for business

- All sectors expected to make a contribution
- Relatively simple approach to establish size of pie; inter-sector equity important
- Assistance phased out by 2025
- Carbon will increasingly be viewed as a cost of production, just like energy and labour
- Government to engage with business on preferred approach for intra-sector allocation

Assistance for households

- Impact will be felt the most in petrol costs and electricity bills
- Average household will see costs rise by a few dollars a week
- Government considering additional measures so that low- and modest-income households are not disadvantaged, while ensuring incentives for efficient-energy use remain

International linkages

- In CP1, the NZ ETS will be fully linked to international Kyoto markets
  - NZ ETS participants can buy Kyoto units, and can exchange NZUs for Kyoto units to sell internationally
  - NZ ETS participants can use Kyoto units to meet their domestic obligations
- The design should permit direct bilateral linkages to other domestic trading schemes in the future
- The NZ ETS is adaptable to future international agreements

Issues for Māori

- Significant actors in the primary sector
- Government is undertaking research on the impacts on Māori of an emissions trading scheme

Further information

- All documents are available from www.climatechange.govt.nz

- For discussion on the presentation:
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